

City of Dearborn Heights, Michigan

Financial Report with Supplemental Information June 30, 2008

City of Dearborn Heights, Michigan

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City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the City Council
City of Dearborn Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the pension system funding progress schedule, and budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Dearborn Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dearborn Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008 on our consideration of the City of Dearborn Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 30, 2008

City of Dearborn Heights, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Dearborn Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Property taxes are the City's single, largest source of revenues. The City's gross tax base (taxable value) for the fiscal year ended June 30, 2008 was approximately \$1,604,000,000 which represents an increase of \$74,000,000 over the prior year tax base. This represents an increase of approximately 4.8 percent.
- State-shared revenue, the second largest revenue source of the Corporate Fund, increased by approximately \$43,500 this year. This represents nearly a 1 percent increase from the prior year.
- The mayor and department heads worked closely to reduce expenditures and increase fees for service to help alleviate the current financial issues the City faces.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 14,023,151	\$ 13,218,442	\$ 9,584,767	\$ 9,091,565	\$ 23,607,918	\$ 22,310,007
Noncurrent assets	73,132,459	67,217,368	94,713,066	93,804,319	167,845,525	161,021,687
Total assets	87,155,610	80,435,810	104,297,833	102,895,884	191,453,443	183,331,694
Liabilities						
Current liabilities	3,156,887	3,452,825	4,880,025	4,895,691	8,036,912	8,348,516
Long-term liabilities	18,410,017	18,353,644	28,433,746	29,997,517	46,843,763	48,351,161
Total liabilities	21,566,904	21,806,469	33,313,771	34,893,208	54,880,675	56,699,677
Net Assets						
Invested in capital assets -						
Net of related debt	61,224,098	54,886,368	57,147,961	54,900,402	118,372,059	109,786,770
Restricted	8,918,270	7,701,164	5,762,454	5,768,001	14,680,724	13,469,165
Unrestricted (deficit)	(4,553,662)	(3,958,191)	8,073,647	7,334,273	3,519,985	3,376,082
Total net assets	<u>\$ 65,588,706</u>	<u>\$ 58,629,341</u>	<u>\$ 70,984,062</u>	<u>\$ 68,002,676</u>	<u>\$ 136,572,768</u>	<u>\$ 126,632,017</u>

The City's combined net assets increased approximately 8 percent from a year ago - increasing from \$126.6 million to \$136.6 million.

Unrestricted net assets of the governmental activities - the part of net assets that can be used to finance day-to-day operations - decreased by approximately \$595,000. This decrease is related primarily to changes in various restrictions on net assets incurred in the current year.

The increase in total net assets of the business-type activities of approximately \$3 million relates in part to returns on investments held by the business-type activities, overall increases in water and sewer revenues, and to amounts contributed from the governmental activities and other governmental units for the improvement of water and sewer lines.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 8,829,725	\$ 8,097,283	\$ 13,617,000	\$ 12,956,001	\$ 22,446,725	\$ 21,053,284
Operating grants and contributions	4,762,145	4,351,989	-	-	4,762,145	4,351,989
Capital grants and contributions	8,129,234	6,292,163	302,862	569,325	8,432,096	6,861,488
General revenue:						
Property taxes	20,615,694	19,777,064	5,404,588	5,388,079	26,020,282	25,165,143
State-shared revenue	5,812,343	5,768,821	-	-	5,812,343	5,768,821
Unrestricted investment earnings	312,462	324,700	406,528	529,031	718,990	853,731
Franchise fees	746,003	675,568	-	-	746,003	675,568
Loss on sale of capital assets	(33,705)	(33,244)	-	-	(33,705)	(33,244)
Total revenue	49,173,901	45,254,344	19,730,978	19,442,436	68,904,879	64,696,780
Program Expenses						
General government	8,366,149	7,102,012	-	-	8,366,149	7,102,012
Public safety	20,900,175	20,372,229	-	-	20,900,175	20,372,229
Public works	8,877,242	8,496,886	-	-	8,877,242	8,496,886
Community and economic development	948,155	587,776	-	-	948,155	587,776
Recreation and culture	2,820,098	2,622,213	-	-	2,820,098	2,622,213
Interest on long-term debt	302,717	385,057	-	-	302,717	385,057
Water and sewer	-	-	16,749,592	16,826,676	16,749,592	16,826,676
Total program expenses	42,214,536	39,566,173	16,749,592	16,826,676	58,964,128	56,392,849
Change in Net Assets	\$ 6,959,365	\$ 5,688,171	\$ 2,981,386	\$ 2,615,760	\$ 9,940,751	\$ 8,303,931

Governmental Activities

Reviewing the above chart, it can be noted that overall revenues increased approximately \$4.2 million while expenditures increased approximately \$2.6 million. The increase in revenues was caused in part by an increase in roadwork performed on behalf of the City by the Michigan Department of Transportation.

The increase in expenditures is primarily due to an increase in overall expenses, in particular associated with payroll and related benefits.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City maintains transmission lines that allow customers to receive water from the City of Detroit water system and deliver it to our residents. Sewage treatment is provided through Wayne County's Rouge Valley and Downriver Sewage Disposal Systems.

Per review of the above chart, it can be noted that total revenues and expenses remained relatively consistent with the prior fiscal year.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Dearborn Heights' Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2008 include the Corporate Fund, Major Streets Fund, and Local Streets Fund.

Corporate Fund Budgetary Highlights

The Corporate Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City. The budget is essentially a maintenance budget, which means it usually increases modestly from year to year. The budget is monitored closely and amended when needed.

As in the past, the budget was amended to account for increases in revenues, such as court costs, fines and violations, and interest income. In addition, the expenditures side of the budget was increased for the general government, public safety, the Department of Public Works, and other departments as needed.

Capital Asset and Debt Administration

At the end of fiscal year 2008, the City (excluding component units) had approximately \$162 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. The debt related to the acquisition and construction of these assets at June 30, 2008 was approximately \$43.3 million. Additional information regarding capital assets and related debt is available in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Due to the Headlee amendment, the City of Dearborn Heights has been applying its maximum millage rates for several years. Our state-shared revenues have stabilized, but are smaller than they should be. Some expenditures are assumed to increase at the rate of inflation, while others are assumed to increase above that rate. With changes in our capital outlay expenditures, employees paying higher co-pays, higher cost sharing amounts on health insurance, increased fees for service, and eliminating positions through attrition, we were able to adopt a balanced budget for the 2008 fiscal year. We will still keep a constant eye on the State for changes in state-shared revenues.

Due to our decreasing debt load for bonding, system improvements, and controlling water loss, the City will probably consider a nominal increase in water and sewer rates to be effective in January 2009.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City of Dearborn Heights, Michigan's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's comptroller's office at 6045 Fenton, Dearborn Heights, Michigan 48127, or via the City's website at dbarrow@ci.dearborn-heights.mi.us.

City of Dearborn Heights, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 9,329,026	\$ 3,889,470	\$ 13,218,496	\$ 4,028,383
Receivables - Net:				
Taxes	496,380	-	496,380	-
Customers	-	5,053,038	5,053,038	-
Other	674,500	-	674,500	-
Internal balances	(256,575)	256,575	-	-
Due from other governmental units	3,770,723	-	3,770,723	118,252
Due from component unit	9,097	-	9,097	-
Due from primary government	-	-	-	15,881
Inventories, prepaids, and other assets	-	385,684	385,684	54,385
Restricted assets (Note 8)	-	5,762,454	5,762,454	-
Capital assets not being depreciated (Note 5)	5,602,019	532,726	6,134,745	2,767,640
Capital assets being depreciated (Note 5)	67,166,079	88,417,886	155,583,965	20,345,586
Joint venture long-term assets (Note 1)	364,361	-	364,361	-
Total assets	87,155,610	104,297,833	191,453,443	27,330,127
Liabilities				
Accounts payable	576,469	1,049,081	1,625,550	152,480
Accrued and other liabilities	406,353	132,637	538,990	289,995
Due to other governmental units	177,896	-	177,896	-
Due to component unit	15,881	-	15,881	-
Due to primary government	-	-	-	9,097
Deposits	15,034	69,867	84,901	-
Deferred revenue (Note 4)	3,503	-	3,503	-
Workers' compensation liability (Note 9)	784,976	-	784,976	-
General insurance liability (Note 9):				
Due within one year	286,000	-	286,000	-
Due in more than one year	813,039	-	813,039	-
Compensated absences:				
Due within one year	1,388,751	78,143	1,466,894	-
Due in more than one year	5,555,002	181,392	5,736,394	-
Long-term debt (Note 7):				
Due within one year	287,000	3,550,297	3,837,297	1,200,000
Due in more than one year	11,257,000	28,252,354	39,509,354	20,902,287
Total liabilities	21,566,904	33,313,771	54,880,675	22,553,859
Net Assets				
Invested in capital assets - Net of related debt	61,224,098	57,147,961	118,372,059	1,010,939
Restricted:				
Streets and highways	3,545,918	-	3,545,918	-
Debt service, pension, and other	2,197,601	5,762,454	7,960,055	-
Library expenses	2,833,998	-	2,833,998	-
Cable improvements	247,719	-	247,719	-
Drug enforcement	93,034	-	93,034	-
Unrestricted	(4,553,662)	8,073,647	3,519,985	3,765,329
Total net assets	\$ 65,588,706	\$ 70,984,062	\$ 136,572,768	\$ 4,776,268

City of Dearborn Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating Grants and Contributions	Capital Grants and Contributions
		Services		
Primary government:				
Governmental activities:				
General government	\$ 8,366,149	\$ 777,108	\$ 233,661	\$ -
Public safety	20,900,175	5,476,031	337,657	433,166
Public works	8,877,242	1,452,173	3,190,079	7,593,976
Community and economic development	948,155	-	843,564	-
Recreation and culture	2,820,098	1,124,413	157,184	102,092
Interest on long-term debt	302,717	-	-	-
Total governmental activities	42,214,536	8,829,725	4,762,145	8,129,234
Business-type activities - Water and sewer	16,749,592	13,617,000	-	302,862
Total primary government	<u>\$ 58,964,128</u>	<u>\$ 22,446,725</u>	<u>\$ 4,762,145</u>	<u>\$ 8,432,096</u>
Component units:				
Tax Increment Finance Authority	\$ 3,394,378	\$ -	\$ 254,965	\$ -
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	25,415	-	-	-
Total component units	<u>\$ 3,419,793</u>	<u>\$ -</u>	<u>\$ 254,965</u>	<u>\$ -</u>
General revenues:				
General property taxes				
Water and sewer millage property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Loss on sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (7,355,380)	\$ -	\$ (7,355,380)	\$ -
(14,653,321)	-	(14,653,321)	-
3,358,986	-	3,358,986	-
(104,591)	-	(104,591)	-
(1,436,409)	-	(1,436,409)	-
(302,717)	-	(302,717)	-
(20,493,432)	-	(20,493,432)	-
-	(2,829,730)	(2,829,730)	-
(20,493,432)	(2,829,730)	(23,323,162)	-
-	-	-	(3,139,413)
-	-	-	-
-	-	-	(25,415)
-	-	-	(3,164,828)
20,615,694	-	20,615,694	3,467,133
-	5,404,588	5,404,588	-
5,812,343	-	5,812,343	-
312,462	406,528	718,990	174,854
746,003	-	746,003	-
(33,705)	-	(33,705)	-
27,452,797	5,811,116	33,263,913	3,641,987
6,959,365	2,981,386	9,940,751	477,159
58,629,341	68,002,676	126,632,017	4,299,109
\$ 65,588,706	\$ 70,984,062	\$ 136,572,768	\$ 4,776,268

City of Dearborn Heights, Michigan

Governmental Funds Balance Sheet June 30, 2008

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 3,219,989	\$ 557,353	\$ 2,477,066	\$ 3,074,619	\$ 9,329,027
Receivables:					
Taxes	496,380	-	-	-	496,380
Other	663,190	-	-	11,310	674,500
Due from other governmental units	2,886,729	585,992	149,174	148,828	3,770,723
Due from other funds (Note 6)	477,395	-	86,496	495,646	1,059,537
Due from component unit	9,097	-	-	-	9,097
Total assets	\$ 7,752,780	\$ 1,143,345	\$ 2,712,736	\$ 3,730,403	\$ 15,339,264
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 529,703	\$ 17,684	\$ -	\$ 29,082	\$ 576,469
Accrued and other liabilities	296,409	-	-	6,932	303,341
Due to other governmental units	177,896	-	-	-	177,896
Due to other funds (Note 6)	817,615	292,479	-	206,018	1,316,112
Due to component unit	15,881	-	-	-	15,881
Deposits	-	-	-	15,034	15,034
Deferred revenue (Note 4)	351,752	-	-	3,503	355,255
Total liabilities	2,189,256	310,163	-	260,569	2,759,988
Fund Balances					
Reserved (Note 12)	2,445,320	-	-	58,137	2,503,457
Unreserved, reported in (Note 12):					
Corporate Fund	3,118,204	-	-	-	3,118,204
Special Revenue Funds	-	833,182	2,712,736	3,411,697	6,957,615
Total fund balances	5,563,524	833,182	2,712,736	3,469,834	12,579,276
Total liabilities and fund balances	\$ 7,752,780	\$ 1,143,345	\$ 2,712,736	\$ 3,730,403	\$ 15,339,264

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2008

Fund Balances - Total Governmental Funds	\$ 12,579,276
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	72,768,098
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	351,752
Investment in joint ventures is included as part of governmental assets	364,361
Long-term debt is not due and payable in the current period and is not reported in the funds	(11,544,000)
Interest payable is not accrued in the funds	(103,013)
Compensated absences are not included as a liability of the funds	(6,943,753)
General insurance liability is not included as a liability of the funds	(1,099,039)
Workers' compensation liability is not included as a liability of the funds	<u>(784,976)</u>

Net Assets of Governmental Activities	<u>\$ 65,588,706</u>
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City of Dearborn Heights, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2008

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
General property taxes	\$ 19,140,963	\$ -	\$ -	\$ 1,474,731	\$ 20,615,694
Licenses and permits	1,056,762	-	-	-	1,056,762
Federal grants	-	-	-	1,393,701	1,393,701
State-shared revenues, grants, and other state aid	6,010,155	2,268,807	918,930	93,629	9,291,521
Local revenue	-	124,917	499,669	-	624,586
Charges for services	1,770,134	-	-	-	1,770,134
Fines and forfeitures	3,880,380	-	-	476,657	4,357,037
Interest income	534,128	23,075	126,143	163,244	846,590
Drug enforcement revenue	-	-	-	211,562	211,562
Other	1,748,680	-	2,342	318,706	2,069,728
Total revenues	34,141,202	2,416,799	1,547,084	4,132,230	42,237,315
Expenditures					
Current:					
General government	7,644,622	-	-	-	7,644,622
Public safety	20,965,172	-	-	445,937	21,411,109
Public works	3,991,039	2,702,753	1,178,966	-	7,872,758
Community and economic development	117,536	-	-	1,421,511	1,539,047
Recreation and culture	1,113,157	-	-	1,668,271	2,781,428
Capital outlay	-	-	-	14,640	14,640
Debt service	-	-	-	220,638	220,638
Total expenditures	33,831,526	2,702,753	1,178,966	3,770,997	41,484,242
Excess of Revenues Over (Under) Expenditures	309,676	(285,954)	368,118	361,233	753,073
Other Financing Sources (Uses)					
Transfers in	-	400,000	-	223,596	623,596
Transfers out	(220,638)	-	(400,000)	(2,958)	(623,596)
Total other financing sources (uses)	(220,638)	400,000	(400,000)	220,638	-
Net Changes in Fund Balances	89,038	114,046	(31,882)	581,871	753,073
Fund Balances - Beginning of year	5,474,486	719,136	2,744,618	2,887,963	11,826,203
Fund Balances - End of year	\$ 5,563,524	\$ 833,182	\$ 2,712,736	\$ 3,469,834	\$ 12,579,276

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 753,073

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 9,309,868	
Depreciation expense	(3,330,432)	
Net book value of assets disposed	<u>(33,706)</u>	5,945,730

Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements	228,283
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Activity related to the joint venture is not required to be recorded in the governmental funds, but is recorded in the statement of activities	(30,639)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	392,000
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Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense	1,148
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Decrease in estimated general liability claims is recorded in the statement of activities	(260,191)
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Decrease in estimated workers' compensation claims is recorded in the statement of activities	(135,754)
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>65,715</u>
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Change in Net Assets of Governmental Activities **\$ 6,959,365**

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Net Assets June 30, 2008

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 3,889,470
Customer receivables	5,053,038
Inventories, prepaids, and other assets	385,684
Due from other funds (Note 6)	<u>256,575</u>
Total current assets	9,584,767
Noncurrent assets:	
Restricted assets (Note 8)	5,762,454
Capital assets (Note 5)	<u>88,950,612</u>
Total noncurrent assets	<u>94,713,066</u>
Total assets	104,297,833
Liabilities	
Current liabilities:	
Accounts payable	1,049,081
Accrued and other liabilities	132,637
Deposits	69,867
Current portion of compensated absences	78,143
Current portion of long-term debt (Note 7)	<u>3,550,297</u>
Total current liabilities	4,880,025
Noncurrent liabilities:	
Provision for compensated absences - Net of current portion	181,392
Long-term debt - Net of current portion (Note 7)	<u>28,252,354</u>
Total noncurrent liabilities	<u>28,433,746</u>
Total liabilities	<u>33,313,771</u>
Net Assets	
Investment in capital assets - Net of related debt	57,147,961
Restricted for debt payments	5,762,454
Unrestricted	<u>8,073,647</u>
Total net assets	<u><u>\$ 70,984,062</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise - Water and Sewer Fund
Operating Revenues	
Water and sewer services	\$ 12,904,080
Other operating revenue	<u>712,920</u>
Total operating revenues	13,617,000
Operating Expenses	
Water and sewage disposal charges	6,108,236
Transmission and distribution expense	1,576,408
Administrative and general expense	4,280,028
Depreciation	2,678,597
Other operating expenses	<u>896,788</u>
Total operating expenses	<u>15,540,057</u>
Operating Loss	(1,923,057)
Nonoperating Revenue (Expense)	
Interest earned on investments	406,528
Interest expense	(1,209,535)
Property taxes	<u>5,404,588</u>
Income - Before contributions	2,678,524
Capital Contributions	<u>302,862</u>
Change in Net Assets	2,981,386
Net Assets - Beginning of year	<u>68,002,676</u>
Net Assets - End of year	<u><u>\$ 70,984,062</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2008

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 13,357,311
Payments to suppliers	(9,536,090)
Payments to employees	(2,712,475)
Internal activity - Payments to other funds	(270,359)
Other payments	(896,788)
	<u>(58,401)</u>
Net cash used in operating activities	(58,401)
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy (restricted for debt service)	5,404,588
Property taxes turned over to the County	(1,947,557)
Principal and interest paid on long-term debt	(2,430,484)
Purchase of capital assets	(1,306,636)
	<u>(280,089)</u>
Net cash used in capital and related financing activities	(280,089)
Cash Flows from Investing Activities - Interest received on investments	<u>239,921</u>
Net Decrease in Cash and Cash Equivalents	(98,569)
Cash and Cash Equivalents - Beginning of year	<u>3,988,039</u>
Cash and Cash Equivalents - End of year	<u>\$ 3,889,470</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,923,057)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	2,678,597
Changes in assets and liabilities:	
Receivables	(263,408)
Other assets	(34,002)
Accounts payable	(176,269)
Accrued liabilities	(73,622)
Due to other funds	(270,359)
Deposits	3,719
	<u>3,719</u>
Net cash used in operating activities	<u>\$ (58,401)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, the Tax Increment Finance Authority Fund constructed water line improvements with a value of \$302,862, and donated them to the City. The City is also amortizing deferred charges on bond refundings, which amounted to \$110,470 in the current year. Wayne County used \$2,008,716 of deposits held on behalf of the City to retire debt, and issued \$1,896,400 in new debt which was used for construction of various City assets. Interest income totaling \$166,607 was earned on funds held at Wayne County.

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 6,983,913	\$ 867,224
Marketable securities (Note 3):		
U.S. governmental securities	5,087,976	-
Municipal	250,187	-
Common stock	83,333,494	-
Limited partnerships	7,343,824	-
Real estate investment trusts	1,316,196	-
Corporate bonds	16,192,488	-
Mutual funds	65,169,235	-
Cash held as collateral for securities lending (Note 3)	13,315,365	-
Other receivables	353,222	-
Total assets	199,345,900	<u>\$ 867,224</u>
Liabilities		
Accounts payable	130,452	\$ -
Accrued and other liabilities	-	262,637
Due to other governmental units	1,783,672	604,587
Collateral for securities lending (Note 3)	13,315,365	-
Total liabilities	15,229,489	<u>\$ 867,224</u>
Net Assets - Held in trust for employees' retirement systems		<u>\$ 184,116,411</u>

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Employee Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 9,666,310
Net increase in fair value of investments	(15,408,322)
Less investment expenses	<u>(465,026)</u>
Net investment loss	(6,207,038)
Contributions:	
Employer	3,174,471
Employee	<u>523,809</u>
Total contributions	3,698,280
Net securities lending income	<u>80,403</u>
Total additions	(2,428,355)
Deductions	
Benefit payments	7,778,386
Fringe benefits	1,783,672
Administrative expenses	<u>69,316</u>
Total deductions	<u>9,631,374</u>
Net Decrease	(12,059,729)
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>196,176,140</u>
End of year	<u><u>\$ 184,116,411</u></u>

City of Dearborn Heights, Michigan

Component Units Statement of Net Assets June 30, 2008

	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 4,028,383	\$ -	\$ -	\$ 4,028,383
Due from primary government	15,091	790	-	15,881
Due from other governmental units	-	-	118,252	118,252
Prepaid and other assets	54,385	-	-	54,385
Capital assets not being depreciated (Note 5)	2,767,640	-	-	2,767,640
Capital assets being depreciated (Note 5)	20,345,586	-	-	20,345,586
Total assets	27,211,085	790	118,252	27,330,127
Liabilities				
Accounts payable	152,480	-	-	152,480
Accrued liabilities	236,272	-	53,723	289,995
Due to primary government	9,097	-	-	9,097
Long-term debt (Note 7):				
Due within one year	1,200,000	-	-	1,200,000
Due in more than one year	20,902,287	-	-	20,902,287
Total liabilities	22,500,136	-	53,723	22,553,859
Net Assets				
Investment in capital assets - Net of related debt	1,010,939	-	-	1,010,939
Unrestricted	3,700,010	790	64,529	3,765,329
Total net assets	<u>\$ 4,710,949</u>	<u>\$ 790</u>	<u>\$ 64,529</u>	<u>\$ 4,776,268</u>

City of Dearborn Heights, Michigan

		<u>Program Revenues</u>
	<u>Expenses</u>	<u>Operating Grants/ Contributions</u>
Tax Increment Finance Authority		
Public works	\$ 1,132,650	\$ -
Public safety	877,011	254,965
Recreation and culture	226,446	-
Community and economic development	73,503	-
Interest expense and bond issue costs	<u>1,084,768</u>	<u>-</u>
Total Tax Increment Finance Authority	3,394,378	254,965
Economic Development Corporation - Public works	-	-
Brownfield Redevelopment Authority - Public works	<u>25,415</u>	<u>-</u>
Total governmental activities	<u>\$ 3,419,793</u>	<u>\$ 254,965</u>
General revenues:		
Property taxes		
Interest and other		
Total general revenues		
Change in Net Assets		
Net Assets - Beginning of year		
Net Assets - End of year		

Component Units
Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Tax Incremental Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (1,132,650)	\$ -	\$ -	\$ (1,132,650)
(622,046)	-	-	(622,046)
(226,446)	-	-	(226,446)
(73,503)	-	-	(73,503)
(1,084,768)	-	-	(1,084,768)
(3,139,413)	-	-	(3,139,413)
-	-	-	-
-	-	(25,415)	(25,415)
(3,139,413)	-	(25,415)	(3,164,828)
3,412,126	-	55,007	3,467,133
174,854	-	-	174,854
3,586,980	-	55,007	3,641,987
447,567	-	29,592	477,159
4,263,382	790	34,937	4,299,109
\$ 4,710,949	\$ 790	\$ 64,529	\$ 4,776,268

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Dearborn Heights (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The Building Authority does not have separately issued financial statements.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- (a) The Tax Increment Finance Authority (TIFA) was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The TIFA's governing body, which consists of 13 individuals, is appointed by the mayor. Separately issued financial statements for the TIFA can be obtained at 25637 Michigan Avenue, Dearborn Heights, Michigan 48125.
- (b) The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of four individuals, is appointed by the mayor. This entity had no activity in the current year and does not have separately issued financial statements.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

- (c) The Brownfield Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Tax Increment Finance Authority's board members. Currently, the Authority is in the preliminary stages of development and does not have separately issued financial statements.

Jointly Governed Organization - The City is a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority") and has appointed one member to the joint venture's governing board. The Sanitation Authority provides household refuse disposal services primarily for the benefit of constituents in the member municipalities. During the current fiscal year, the City contributed approximately \$860,000 for sanitation costs passed through the Sanitation Authority, which is reported in the Corporate Fund's expenditures. In addition, the City has recorded an asset related to the Sanitation Authority of \$364,361 in the government-wide statement of net assets (asset recorded represents the City's portion of the Sanitation Authority's net assets). Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 3759 Commerce Court, Wayne, MI 48184.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

Corporate Fund - The Corporate Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Local Streets Fund - The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fiduciary activities:

Pension Trust Funds - The Pension Trust Funds account for the activities of the police and fire employees' retirement system and general employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.

Agency Fund - The Agency Fund accounts for deposits of monies held by the City government in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

20th District Court Fund - This fund accounts for monies collected by the court related to fines and bonds that are subsequently returned or distributed to the City as the district control unit, the County, and the State of Michigan.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

The effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the City approximated \$1.604 billion (a portion of which is captured by the TIFA), on which taxes levied consisted of 6.3240 mills for operating purposes, 1.4875 mills for public safety expenditures, 0.6861 mills for solid waste expenditures, 1.8357 mills for Act 345 contributions, 2.0585 mills for sanitation expenditures, 0.9188 mills for library operations and debt service, 2.2500 mills for CSO debt service, and 1.3560 mills for EPA debt service. This resulted in approximately \$9,464,000 for operating, \$2,226,000 for public safety expenditures, \$1,027,000 for solid waste expenditures, \$2,747,000 for Act 345 contributions (used for pension and retiree health care and other benefits), \$3,081,000 for sanitation expenditures, \$1,471,000 for library operations and debt service, \$3,372,000 for CSO debt service, and \$2,032,000 for EPA debt service.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of deposits at the county being held for the construction and debt service of the City's sewer lines. The restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, and a 10 percent salvage value is assumed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, and street signs	10 to 20 years
Water systems	50 to 75 years
Sewer systems	40 to 50 years
Buildings and building improvements	50 years
Machinery, furniture, equipment, and vehicles	5 to 15 years
Library books	3 years

Compensated Absences (Vacation, Longevity, and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick, vacation pay, and longevity benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the fund financial statements only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the Corporate Fund, Community Development Block Grant Fund, and the Major and Local Streets Funds on an activity basis. The State Budget Act requires that budgets are adopted for all Special Revenue Funds. The City does not adopt budgets for all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures.

Any expenditures that exceed the budget must be approved by City Council through a budget amendment. The City Council approves all budget amendments. During the current year, there were no significant budget amendments. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated.

The budget process begins in December and January with the comptroller’s office budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. These forms are due back to the comptroller’s office by late January. The comptroller’s office then analyzes these amounts and calculates the total budget.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

In February, the mayor's office schedules meetings with all major departments to review their proposed budget and the budget is adjusted accordingly.

In late February and early March, the comptroller's office reviews the budget to verify that it balances. At this time, the mayor's office reschedules all major departments to do a final review of the departmental budgets. After the final review, the comptroller's office organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council receive the proposed budget by April 1.

During April and May, the City Council reviews the budget with the department heads. City Council meetings, held in April and May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget must be adopted by the City Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by the City Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the following expenditures were in excess of the amounts budgeted:

	Budget	Actual
Corporate Fund - Civil Service - Act No. 78	\$ 19,938	\$ 26,134
Corporate Fund - Police department	12,237,127	12,262,936
Major Streets Fund - Winter maintenance	235,000	386,618
Major Streets Fund - Administration	202,000	250,643
Major Streets Fund - Traffic services	106,000	117,873
Local Streets Fund - Administration	92,000	106,370
Local Streets Fund - Traffic services	42,000	47,937
Local Streets Fund - Street and bridge construction	422,000	499,669

The unfavorable variance in the Corporate Fund for Civil Service - Act No. 78 expenditures related to greater than anticipated consulting services due to the newly implemented DROP program. The unfavorable variance in the Corporate Fund for police department expenditures related to both a greater than anticipated increase in motor fuel costs as well as unexpected maintenance costs to the police department. The unfavorable variances for the Major and Local Streets Funds for winter maintenance, construction, traffic services, and administration costs related to greater than anticipated activity during the end of the current year.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension System Trust Funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated nine banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments. The City's deposits and investment policies are in accordance with statutory authority.

As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the Police and Fire Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The pension system's custodial bank manages the securities lending program and received cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2008, only United States currency was received as collateral.

The Fire and Police Pension System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The Fire and Police Pension System and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2008 was 94 days. Because the loans are terminable on demand, their duration did not generally match the maturity date of investments made with cash collateral. The aggregate collateral held and the fair value of the underlying securities on loan for the Fire and Police Pension System as of June 30, 2008 was \$13,315,365 and \$12,927,145, respectively.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$12,771,482 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the City's component units had \$3,615,374 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value (\$000s)	Investment Maturities			
		Less than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Pooled investments	\$ 3,038	\$ 3,038	\$ -	\$ -	\$ -
Corporate asset-backed securities (pension)	1,193	162	371	18	642
Corporate bonds (pension)	13,640	1,084	3,989	5,371	3,196
Corporate collateralized mortgage obligations (pension)	270	-	58	-	212
Corporate private placement (pension)	309	-	128	147	34
Foreign bonds (pension)	780	-	538	58	184
Municipal (pension)	250	-	-	60	190
U.S. government collateralized mortgage obligations (pension)	839	-	-	-	839
U.S. government mortgage-backed securities (pension)	607	2	2	63	540
U.S. government treasuries, notes, and bonds (pension)	3,642	-	2,376	174	1,092
Total	\$ 24,568	\$ 4,286	\$ 7,462	\$ 5,891	\$ 6,929

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value (\$000s)	Rating	Rating Organization
Pooled investments	\$ 3,038	AI	Moody's
Corporate asset-backed securities (pension)	1,193	AAA	Standard and Poor's
Corporate bonds (pension)	1,397	AAA	Standard and Poor's
Corporate bonds (pension)	3,687	AA	Standard and Poor's
Corporate bonds (pension)	6,960	A	Standard and Poor's
Corporate bonds (pension)	1,587	BBB	Standard and Poor's
Corporate bonds (pension)	9	BB	Standard and Poor's
Corporate collateralized mortgage obligations (pension)	188	AAA	Standard and Poor's
Corporate collateralized mortgage obligations (pension)	82	Not rated	
Corporate private placement (pension)	29	AAA	Standard and Poor's
Corporate private placement (pension)	96	A	Standard and Poor's
Corporate private placement (pension)	175	BBB	Standard and Poor's
Corporate private placement (pension)	9	BB	Standard and Poor's
Foreign bonds (pension)	190	AA	Standard and Poor's
Foreign bonds (pension)	444	A	Standard and Poor's
Foreign bonds (pension)	146	BBB	Standard and Poor's
Municipal (pension)	179	AAA	Standard and Poor's
Municipal (pension)	54	AAA	Standard and Poor's
Municipal (pension)	17	Not rated	Standard and Poor's
U.S. government collateralized mortgage obligations (pension)	839	Not rated	
U.S. government mortgage-backed securities (pension)	607	Not rated	
U.S. government treasuries, notes, and bonds (pension)	3,642	AAA	Standard and Poor's
Mutual funds (pension)	65,169	Not rated	

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system does not restrict the amount of investments in foreign currency. As of year end, the pension system had approximately \$29,500,000 invested in investments denominated in various foreign currencies whose underlying investments are subject, in part, to foreign currency risk.

Declines in Investment Values - Subsequent to year end, the fair value of the City's investment portfolio (reflected in the pension systems) has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Special assessments	\$ 351,752	\$ -	\$ 351,752
Other	<u>-</u>	<u>3,503</u>	<u>3,503</u>
Total	<u>\$ 351,752</u>	<u>\$ 3,503</u>	<u>\$ 355,255</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated - Land	\$ 5,602,019	\$ -	\$ -	\$ 5,602,019
Capital assets being depreciated:				
Roads, sidewalks, and street signs	55,624,800	8,410,907	-	64,035,707
Buildings and improvements	24,754,161	186,270	-	24,940,431
Machinery, equipment, and vehicles	9,376,732	712,691	(56,894)	10,032,529
Library books	2,707,000	-	-	2,707,000
Subtotal	92,462,693	9,309,868	(56,894)	101,715,667
Accumulated depreciation:				
Roads, sidewalks, and street signs	17,281,905	2,362,098	-	19,644,003
Buildings and improvements	4,867,187	441,043	-	5,308,230
Machinery, equipment, and vehicles	6,656,952	527,291	(23,188)	7,161,055
Library books	2,436,300	-	-	2,436,300
Subtotal	31,242,344	3,330,432	(23,188)	34,549,588
Net capital assets being depreciated	61,220,349	5,979,436	(33,706)	67,166,079
Net capital assets	<u>\$ 66,822,368</u>	<u>\$ 5,979,436</u>	<u>\$ (33,706)</u>	<u>\$ 72,768,098</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 451,171	\$ -	\$ -	\$ 451,171
Construction in progress	81,555	-	-	81,555
Subtotal	532,726	-	-	532,726
Capital assets being depreciated:				
Water system	20,709,807	751,704	75,170	21,386,341
Sewer system	92,759,948	2,028,086	202,809	94,585,225
Buildings and building improvements	438,694	330,165	-	768,859
Equipment, vehicles, furniture, and fixtures	4,471,875	482,936	-	4,954,811
Subtotal	118,380,324	3,592,891	277,979	121,695,236
Accumulated depreciation:				
Water system	7,705,623	499,778	75,170	8,130,231
Sewer system	19,194,951	1,842,949	202,809	20,835,091
Buildings and building improvements	372,116	11,592	-	383,708
Equipment, vehicles, furniture, and fixtures	3,604,042	324,278	-	3,928,320
Subtotal	30,876,732	2,678,597	277,979	33,277,350
Net capital assets being depreciated	87,503,592	914,294	-	88,417,886
Net capital assets	<u>\$ 88,036,318</u>	<u>\$ 914,294</u>	<u>\$ -</u>	<u>\$ 88,950,612</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 501,520
Public safety	367,733
Public works	2,422,178
Recreation and culture	<u>39,001</u>
Total governmental activities	<u>\$ 3,330,432</u>
Business-type activities - Water and sewer	<u>\$ 2,678,597</u>

Public works-related capital expenditures incurred by the Tax Increment Finance Authority, a component unit of the City, resulting in assets that are maintained by the Water and Sewer Fund of the City, are recorded as assets of the Water and Sewer Fund. A corresponding revenue related to capital contributions is reflected in the Water and Sewer Fund in the year the expenditure is incurred by the Tax Increment Finance Authority.

Component Units

	Balance July 1, 2007	Additions	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 2,767,640	\$ -	\$ 2,767,640
Capital assets being depreciated:			
Buildings and improvements	21,565,525	18,733	21,584,258
Roads	<u>5,000,000</u>	<u>-</u>	<u>5,000,000</u>
Subtotal	26,565,525	18,733	26,584,258
Accumulated depreciation:			
Buildings and improvements	2,693,424	745,248	3,438,672
Roads	<u>2,600,000</u>	<u>200,000</u>	<u>2,800,000</u>
Subtotal	<u>5,293,424</u>	<u>945,248</u>	<u>6,238,672</u>
Net capital assets being depreciated	<u>21,272,101</u>	<u>(926,515)</u>	<u>20,345,586</u>
Net capital assets	<u>\$ 24,039,741</u>	<u>\$ (926,515)</u>	<u>\$ 23,113,226</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Corporate Fund	Major Streets Fund	\$ 292,479
Corporate Fund	Other nonmajor funds	184,916
	Total Corporate Fund	477,395
Other nonmajor funds	Corporate Fund	474,544
Other nonmajor funds	Other nonmajor funds	21,102
	Total other nonmajor funds	495,646
Local Streets Fund	Corporate Fund	86,496
Water and Sewer Fund	Corporate Fund	256,575
	Total due from other funds	\$ 1,316,112

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund Transfers - The Corporate Fund transferred \$220,638 to the Fire Station Bonds nonmajor Debt Service Fund, and the nonmajor Capital Projects Fund transferred \$2,958 to the Library nonmajor Special Revenue Fund for current year debt service payments. The Major Streets Fund transferred \$400,000 to the Local Streets Fund for current year expenditures.

Transactions Between the Primary Government and Component Units - The Building Authority nonmajor Special Revenue Fund contributed \$254,965 to the TIFA component unit for current year debt service payments. The TIFA component unit contributed \$221,372 to the Library nonmajor Special Revenue Fund for current year debt service payments. See Note 5 for additional information regarding transactions between the TIFA component unit and the primary government related to capital assets.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Building Authority Refunding Bonds	2028	3.25%-4.15%	\$ 3,130,000	\$ -	\$ 100,000	\$ 3,030,000	\$ 100,000
Library Bonds	2033	3.00%-4.75%	8,610,000	-	150,000	8,460,000	160,000
Installment purchase contract - Radio system	2008	4.90%	115,000	-	115,000	-	-
Installment purchase contract - Telephone system	2010	3.18%	81,000	-	27,000	54,000	27,000
Total governmental activities			<u>\$ 11,936,000</u>	<u>\$ -</u>	<u>\$ 392,000</u>	<u>\$ 11,544,000</u>	<u>\$ 287,000</u>
Business-type Activities							
General obligation bonds:							
Wayne County North Huron Valley - Rouge Valley Refunding Bonds	2009	5.80%-6.00%	\$ 978,600	\$ -	\$ 475,320	\$ 503,280	\$ 503,280
Limited Tax Wastewater Disposal System Refunding Bonds	2010	4.70%-4.90%	1,615,000	-	490,000	1,125,000	560,000
Wayne County Rouge Valley Wastewater Control System Bonds	2017	4.00%-4.85%	8,865,000	-	725,000	8,140,000	755,000
County contractual obligations:							
State Revolving Loan Fund	2016	2.25%	1,340,000	-	135,000	1,205,000	140,000
State Revolving Loan Fund	2016	2.25%	425,185	-	52,174	373,011	57,861
State Revolving Loan Fund	2021	2.25%	15,031,132	-	1,069,912	13,961,220	1,097,857
State Revolving Loan Fund	2022	2.25%	178,112	-	10,757	167,355	10,938
State Revolving Loan Fund	2021	2.25%	3,998,750	-	247,312	3,751,438	252,215
State Revolving Loan Fund	2026	6.60%	314,160	-	36,406	277,754	13,530
Downriver Sewage Disposal Bonds - Series A Refunding	2014	4.50%-5.125%	370,122	-	45,966	324,156	47,967
Downriver Sewage Disposal Completion Bonds	2019	4.50%-5.125%	829,033	-	52,288	776,745	54,561
Downriver Sewage Disposal Completion Bonds	2029	4.50%-5.125%	-	1,629,800	-	1,629,800	49,028
Downriver Sewage Disposal Completion Bonds	2029	4.50%-5.125%	-	266,600	-	266,600	8,060
Subtotal			33,945,094	1,896,400	3,340,135	32,501,359	3,550,297
Less deferred charge on refunding			809,178	-	110,470	698,708	-
Total business-type activities			<u>\$ 33,135,916</u>	<u>\$ 1,896,400</u>	<u>\$ 3,229,665</u>	<u>\$ 31,802,651</u>	<u>\$ 3,550,297</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

The above general obligation bonds and contractual obligations of the business-type activities are the result of the County issuing bonds on the City's behalf. The City has pledged property taxes, to the extent permitted by law, to fund the obligations to repay the County. Proceeds from obligations provided financing for the construction of the various water and sewer improvements. The remaining principal and interest to be paid on the obligations is \$32,501,359. During the current year, net property tax revenues of the system were approximately \$5,405,000 compared to the annual debt requirements of approximately \$4,549,000.

Long-term debt for the component units is as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 1,050,000	\$ -	\$ 525,000	\$ 525,000	\$ 525,000
Limited Tax Development Bonds	2010	4.75%-5.00%	495,000	-	160,000	335,000	165,000
Tax Increment Bonds, Series 2001-A	2011	4.25%-5.00%	1,850,000	-	425,000	1,425,000	450,000
2007 Tax Increment Development Refunding Bonds	2031	4.00%-4.50%	20,590,000	-	55,000	20,535,000	60,000
Subtotal			23,985,000	-	1,165,000	22,820,000	1,200,000
Less deferred charge on refunding			772,922	-	55,209	717,713	-
Total component units			\$ 23,212,078	\$ -	\$ 1,109,791	\$ 22,102,287	\$ 1,200,000

Annual debt service requirements to maturity for the above governmental, business-type, and component units bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 287,000	\$ 485,936	\$ 772,936	\$ 3,550,297	\$ 1,019,103	\$ 4,569,400	\$ 1,200,000	\$ 970,566	\$ 2,170,566
2010	307,000	313,423	620,423	3,119,492	887,922	4,007,414	705,000	920,879	1,625,879
2011	295,000	466,803	761,803	2,627,139	780,588	3,407,727	740,000	882,629	1,622,629
2012	305,000	456,477	761,477	2,700,526	697,225	3,397,751	780,000	837,229	1,617,229
2013	325,000	445,414	770,414	2,792,716	609,941	3,402,657	835,000	804,929	1,639,929
2014-2018	1,940,000	2,026,102	3,966,102	13,421,185	1,656,422	15,077,607	4,790,000	3,475,544	8,265,544
2019-2023	2,470,000	1,591,990	4,061,990	3,580,504	355,043	3,935,547	4,655,000	2,504,238	7,159,238
2024-2028	3,085,000	1,004,614	4,089,614	709,500	105,944	815,444	5,255,000	1,460,224	6,715,224
2029-2033	2,530,000	365,012	2,895,012	-	452	452	3,860,000	267,750	4,127,750
Total	\$ 11,544,000	\$ 7,155,771	\$ 18,699,771	\$ 32,501,359	\$ 6,112,640	\$ 38,613,999	\$ 22,820,000	\$ 12,123,988	\$ 34,943,988

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As described below, the TIFA defeased certain bonds in the current year. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2008, approximately \$31.7 million of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Restricted assets at June 30, 2008 consist of deposits at the County being held for water and sewer line construction and debt payments. As discussed in Note 1, the restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liability and auto liability, auto physical damage, and property loss claims; the City is uninsured for workers' compensation claims within certain limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Risk Management (Continued)

The City estimates the liability for workers' compensation and general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	General Liability
Estimated liability - July 1, 2006	\$ 690,000	\$ 834,912
Estimated claims incurred, including changes in estimates	274,569	207,486
Claim payments	<u>(315,347)</u>	<u>(203,550)</u>
Estimated liability - June 30, 2007	649,222	838,848
Estimated claims incurred, including changes in estimates	333,988	715,841
Claim payments	<u>(198,234)</u>	<u>(455,650)</u>
Estimated liability - June 30, 2008	<u>\$ 784,976</u>	<u>\$ 1,099,039</u>

The City is involved in litigation related to various other matters. At the current time, the outcome or potential liability related to these matters cannot be determined. In addition, the extent of insurance coverage related to these matters cannot be determined at this time.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

General Government Employees' Retirement System

Plan Description - The General Government Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the General Government Employees' Retirement System; this plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2008, the date of the most recent actuarial valuation (using data as of June 30, 2007), membership consisted of 127 retirees and beneficiaries currently receiving benefits, 40 terminated employees entitled to benefits but not yet receiving them, and 157 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are not required. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are paid for by the Corporate Fund.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$831,528 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 20 years.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2008, the plan's required reserves have been funded as follows:

Legally required reserves - Reserve for retiree benefit payments	\$ 17,389,955
Additional reserves - Reserve for employer contributions	22,358,872
Total reserves	<u>\$ 39,748,827</u>

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension costs (APC)	\$ 620,316	\$ 647,229	\$ 831,528
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 102.73 percent funded. The actuarial accrued liability for benefits was \$39 million, and the actuarial value of assets was \$40 million, resulting in an overfunded actuarial accrued liability of approximately \$1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.5 million, and the ratio of the overfunded actuarial accrued liability to the covered payroll was (16.59) percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the Police and Fire Retirement System; this plan covers all full-time police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2008, the date of the most recent actuarial valuation (using June 30, 2007 data), membership consisted of 161 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 135 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and required a contribution from the policemen, police supervisors, and firemen of 5 percent, 3 percent, and 3 percent, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through contributions to the plan.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$192,943 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility by recognizing 20 percent of changes in realized and unrealized gains and losses. The funded actuarial liability was amortized as level dollar payments over 15 years. Additionally, the City contributed approximately \$550,000 associated with various administrative expenses of the plan.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2008, the plan's required reserves have been funded as follows:

Legally required reserves:

Reserve for employees' contributions	\$ 7,098,804
Reserve for retiree benefit payments	58,410,767
Additional reserves - Reserve for employer contributions	<u>78,858,013</u>

Total reserves	<u>\$ 144,367,584</u>
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	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension costs (APC)	\$ 301,308	\$ -	\$ 192,943
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 115.54 percent funded. The actuarial accrued liability for benefits was \$120.4 million, and the actuarial value of assets was \$139.1 million, resulting in an overfunded actuarial accrued liability of \$18.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$10.3 million, and the ratio of the overfunded actuarial accrued liability to the covered payroll was (180.88) percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Financial Statement Information - As of June 30, 2008, the statement of net assets for the retirement systems is as follows:

	General Government Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 1,498,677	\$ 5,485,236
Marketable securities:		
U.S. governmental securities	757,247	4,330,729
Municipal	-	250,187
Common stock	18,048,680	65,284,814
Limited partnerships	175,720	7,168,104
Real estate investment trusts	-	1,316,196
Corporate bonds	4,308,206	11,884,282
Mutual funds	14,885,937	50,283,298
Cash held as collateral for securities lending	-	13,315,365
Other receivables	74,360	278,862
Total assets	39,748,827	159,597,073
Liabilities		
Accounts payable	-	130,452
Due to other governmental units	-	1,783,672
Collateral for securities lending	-	13,315,365
Total liabilities	-	15,229,489
Net Assets - Held in trust for employees' retirement systems	\$ 39,748,827	\$ 144,367,584

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

The statement of changes in net assets for the retirement systems are as follows for the year ended June 30, 2008:

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income:		
Interest and dividends	\$ 1,156,539	\$ 8,509,771
Net increase in fair value of investments	(2,145,589)	(13,262,733)
Less investment expenses	-	(465,026)
Net investment income	(989,050)	(5,217,988)
Contributions:		
Employer	831,528	2,342,943
Employee	-	523,809
Total contributions	831,528	2,866,752
Net securities lending income	-	80,403
Total additions	(157,522)	(2,270,833)
Deductions		
Benefit payments	1,718,408	6,059,978
Fringe benefits	-	1,783,672
Administrative expenses	-	69,316
Total deductions	1,718,408	7,912,966
Net Decrease	(1,875,930)	(10,183,799)
Net Assets Held in Trust for Pension Benefits		
Beginning of year	41,624,757	154,551,383
End of year	<u>\$ 39,748,827</u>	<u>\$ 144,367,584</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

In a prior period, the Police and Fire Retirement System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expenditure in the Corporate Fund. During the year ended June 30, 2008, the City's Corporate Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling approximately \$1,784,000. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 287 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with partial contributions required by some of the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due (which are not actuarially determined amounts); during the year, this amounted to approximately \$500,000 in the Corporate Fund and approximately \$1,784,000 in the Policemen and Firemen Retirement System.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Reserved and Designated Fund Balances/Net Assets

Fund balances/net assets have been reserved for the following purposes:

	Corporate Fund	Other Nonmajor Funds - Capital Projects Fund	Water and Sewer Fund	Trust and Agency Fund
Debt service and other	\$ 2,197,601	\$ -	\$ 5,762,454	\$ -
Cable improvements	247,719	-	-	-
Capital Projects Fund	-	58,137	-	-
Employees' retirement systems	-	-	-	184,116,411
Total	<u>\$ 2,445,320</u>	<u>\$ 58,137</u>	<u>\$ 5,762,454</u>	<u>\$ 184,116,411</u>

Unreserved fund balances have been designated for the following purposes:

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Component Units
Designated:					
Working capital purposes	\$ 108,493	\$ -	\$ -	\$ -	\$ -
Insurance claims	855,015	-	-	-	-
Employee benefits	143,406	-	-	-	-
Retiree benefits	814,874	-	-	-	-
911 expenditures	1,196,416	-	-	-	-
Capital projects and other	-	-	-	-	3,645,007
Total designated	3,118,204	-	-	-	3,645,007
Undesignated	-	833,182	2,712,736	3,411,697	-
Total designated and undesignated fund balance	<u>\$ 3,118,204</u>	<u>\$ 833,182</u>	<u>\$ 2,712,736</u>	<u>\$ 3,411,697</u>	<u>\$ 3,645,007</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity is as follows:

Cumulative shortfall at July 1, 2007		\$ (309,932)
Current year building permit revenue		537,978
Related expenditures:		
Direct costs	\$ 624,266	
Estimated indirect costs	<u>156,067</u>	
Total construction code expenditures		<u>780,333</u>
Cumulative shortfall at June 30, 2008		<u><u>\$ (552,287)</u></u>

Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the downriver sewage treatment system. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities were required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the projects is approximately \$280,000,000, with the City's share estimated to be approximately \$35,495,000. To date, and including approved debt yet to be issued as of June 30, 2008 as discussed below, the City has issued approximately \$35,495,000 in debt to fund this project. In addition, the City will have other significant sewer commitments under the Clean Water Act; the amount of these commitments cannot presently be determined. To date, approximately \$20,982,000 has been collected through the property tax levy for debt payments.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 15 - Retirement System Condensed Information

The following are condensed financial statements for the retirement systems:

	General Employees' Retirement System	Police and Fire Retirement System	Total
Statement of Net Assets			
Cash and investments	\$ 39,674,467	\$ 159,318,211	\$ 198,992,678
Other assets	74,360	278,862	353,222
Liabilities	-	15,229,489	15,229,489
Net assets	39,748,827	144,367,584	184,116,411
Statement of Changes in Net Assets			
Investment income	(989,050)	(5,217,988)	(6,207,038)
Contributions	831,528	2,866,752	3,698,280
Other increases	-	80,403	80,403
Benefit payments	1,718,408	7,843,650	9,562,058
Other decreases	-	69,316	69,316
Change in net assets	(1,875,930)	(10,183,799)	(12,059,729)

Required Supplemental Information

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 5,474,486	\$ 5,474,486	\$ 5,474,486	\$ -
Revenues				
Property taxes	18,323,439	18,625,382	19,140,963	515,581
State-shared revenue	6,226,500	6,226,500	6,010,155	(216,345)
Reimbursement from other funds	3,925,000	3,975,000	3,514,730	(460,270)
Licenses and permits	1,253,100	1,253,100	1,056,762	(196,338)
Interest earned	400,000	500,000	534,128	34,128
Court costs, fines, and violations	3,575,000	3,833,000	3,880,380	47,380
Charges for services	2,160,250	2,210,250	1,770,134	(440,116)
Miscellaneous	1,677,120	2,145,647	1,748,680	(396,967)
Total revenues	37,540,409	38,768,879	37,655,932	(1,112,947)
Expenditures				
General government:				
Legislative	91,438	91,438	86,584	4,854
Executive	347,866	344,391	340,884	3,507
Elections	238,178	237,678	142,695	94,983
Treasurer's office	393,835	397,455	382,100	15,355
City Clerk's office	275,770	291,520	286,840	4,680
Comptroller's office	442,578	489,828	487,967	1,861
Assessor's office	422,010	367,560	345,823	21,737
Civil Service Commission	6,438	8,738	7,364	1,374
Board of Appeals	9,812	9,812	4,614	5,198
Building Authority	646	646	-	646
Civil Service - Act No. 78	9,938	19,938	26,134	(6,196)
Data processing	110,000	110,000	100,917	9,083
Personnel	204,918	200,918	197,559	3,359
General government	5,731,810	5,837,091	5,453,869	383,222
Employees' Pension Commission	189,114	189,114	162,203	26,911
Public safety:				
Judicial	1,830,270	1,927,470	1,886,277	41,193
Police department	11,923,589	12,237,127	12,262,936	(25,809)
Fire department	5,392,574	5,859,900	5,826,825	33,075
Protective inspection	905,532	870,232	800,341	69,891
Corporation counsel	150,500	189,500	188,793	707
Public works:				
Building maintenance	1,164,435	1,304,935	1,272,583	32,352
Sanitation	3,600,000	3,600,000	3,441,169	158,831
Highways, streets, and bridges	2,595,576	2,612,906	2,411,086	201,820
Community and Economic Development:				
Planning Commission	28,912	28,912	21,639	7,273
Cable TV Commission	94,872	105,572	95,897	9,675
Recreation and culture:				
Recreation	805,812	868,412	802,026	66,386
Young Recreation Center	340,986	346,786	311,131	35,655
Transfers to other funds	233,000	221,000	220,638	362
Total expenditures	37,540,409	38,768,879	37,566,894	1,201,985
Fund Balance - End of year	\$ 5,474,486	\$ 5,474,486	\$ 5,563,524	\$ 89,038

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Year Ended June 30, 2008

	Major Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 719,136	\$ 719,136	\$ 719,136	\$ -
Revenues				
State sources	2,300,000	2,300,000	2,268,807	(31,193)
Local sources	1,542,200	1,542,200	124,917	(1,417,283)
Interest income	40,000	40,000	23,075	(16,925)
Miscellaneous revenue	508,084	508,084	-	(508,084)
Transfer from other funds	400,000	400,000	400,000	-
Total revenues	4,790,284	4,790,284	2,816,799	(1,973,485)
Expenditures - Public works				
Street maintenance	1,425,000	1,425,000	1,210,139	214,861
Winter maintenance	235,000	235,000	386,618	(151,618)
Administration	202,000	202,000	250,643	(48,643)
Traffic services	106,000	106,000	117,873	(11,873)
Street and bridge construction	2,822,284	2,822,284	737,480	2,084,804
Total expenditures	4,790,284	4,790,284	2,702,753	2,087,531
Fund Balance - End of year	<u>\$ 719,136</u>	<u>\$ 719,136</u>	<u>\$ 833,182</u>	<u>\$ 114,046</u>
	Local Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,744,618	\$ 2,744,618	\$ 2,744,618	\$ -
Revenues				
State sources	925,000	925,000	918,930	(6,070)
Local sources	250,000	250,000	499,669	249,669
Interest income	145,000	145,000	126,143	(18,857)
Miscellaneous revenue	641,000	641,000	2,342	(638,658)
Total revenues	1,961,000	1,961,000	1,547,084	(413,916)
Expenditures - Public works				
Street maintenance	975,000	975,000	516,848	458,152
Winter maintenance	30,000	30,000	8,142	21,858
Administration	92,000	92,000	106,370	(14,370)
Traffic services	42,000	42,000	47,937	(5,937)
Street and bridge construction	422,000	422,000	499,669	(77,669)
Transfer to other funds	400,000	400,000	400,000	-
Total expenditures	1,961,000	1,961,000	1,578,966	382,034
Fund Balance - End of year	<u>\$ 2,744,618</u>	<u>\$ 2,744,618</u>	<u>\$ 2,712,736</u>	<u>\$ (31,882)</u>

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Government Employees' Retirement System						
6/30/02	\$ 40,008,468	\$ 30,990,667	\$ (9,017,801)	129.10	\$ 5,860,613	(153.87)
6/30/03	34,543,090	32,352,969	(2,190,121)	106.77	5,397,409	(40.58)
6/30/04	33,166,549	33,982,504	815,955	97.60	5,435,052	15.01
6/30/05	34,359,640	35,619,913	1,260,273	96.46	5,235,222	24.07
6/30/06	35,819,056	36,448,512	629,456	98.27	5,566,841	11.31
6/30/07	37,356,601	37,508,250	151,649	99.60	6,188,806	2.45
6/30/08	40,073,901	39,009,275	(1,064,626)	102.73	6,418,815	(16.59)
Police and Fire Retirement System						
6/30/02	\$ 98,858,861	\$ 90,946,241	\$ (7,912,620)	108.70	\$ 9,651,854	(81.98)
6/30/03	92,930,343	91,993,127	(937,216)	101.02	9,650,586	(9.71)
6/30/04	98,965,335	94,151,970	(4,813,365)	105.11	9,406,277	(51.17)
6/30/05	113,426,227	103,382,549	(10,043,678)	109.72	9,693,623	(103.61)
6/30/06	122,582,685	108,484,408	(14,098,277)	113.00	9,818,415	(143.59)
6/30/07	131,679,408	114,822,112	(16,857,296)	114.68	10,421,556	(161.75)
6/30/08	139,106,447	120,395,854	(18,710,593)	115.54	10,344,194	(180.88)

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2008

The schedule of employer contributions is as follows:

General Government Employees' Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2003	\$ -	100.0
2004	355,408	100.0
2005	606,234	100.0
2006	620,316	100.0
2007	647,229	100.0
2008	831,528	100.0

Police and Fire Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2003	\$ 617,806	100.0
2004	1,354,713	100.0
2005	878,998	100.0
2006	301,308	100.0
2007	-	100.0
2008	192,943	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2008, the latest actuarial valuation, is as follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2008

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level percent of payroll for assets in excess of AAL
Asset valuation method	20% of the balance of annual changes in realized and unrealized gains and losses
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

Other Supplemental Information

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building Authority
Assets				
Cash and cash equivalents	\$ 71,932	\$ 178	\$ 15,035	\$ -
Due from other governmental units	-	-	148,828	-
Due from other funds	21,102	-	-	474,544
Miscellaneous receivables	-	11,310	-	-
Total assets	<u>\$ 93,034</u>	<u>\$ 11,488</u>	<u>\$ 163,863</u>	<u>\$ 474,544</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 3,192	\$ -
Due to other funds	-	11,488	145,637	-
Escrow deposits	-	-	15,034	-
Accrued and other liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	-	11,488	163,863	-
Fund Balances				
Reserved	-	-	-	-
Undesignated	93,034	-	-	474,544
Total fund balances	93,034	-	-	474,544
Total liabilities and fund balances	<u>\$ 93,034</u>	<u>\$ 11,488</u>	<u>\$ 163,863</u>	<u>\$ 474,544</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Capital Projects	Fire Station Bonds	
\$ 3,503	\$ 31,223	\$ 2,894,611	\$ 58,137	\$ -	\$ 3,074,619
-	-	-	-	-	148,828
-	-	-	-	-	495,646
-	-	-	-	-	11,310
\$ 3,503	\$ 31,223	\$ 2,894,611	\$ 58,137	\$ -	\$ 3,730,403
\$ -	\$ -	\$ 25,890	\$ -	\$ -	\$ 29,082
-	21,102	27,791	-	-	206,018
-	-	-	-	-	15,034
-	-	6,932	-	-	6,932
3,503	-	-	-	-	3,503
3,503	21,102	60,613	-	-	260,569
-	-	-	58,137	-	58,137
-	10,121	2,833,998	-	-	3,411,697
-	10,121	2,833,998	58,137	-	3,469,834
\$ 3,503	\$ 31,223	\$ 2,894,611	\$ 58,137	\$ -	\$ 3,730,403

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug	Miscellaneous	Community	Building
	Enforcement	Grants	Development	Authority
			Block Grant	
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue:				
Federal	-	-	1,393,701	-
State aids and grants	-	-	-	-
Fines	-	-	-	440,444
Interest earned	2,593	-	-	-
Drug enforcement revenue	211,562	-	-	-
Miscellaneous	-	27,810	-	-
Total revenues	214,155	27,810	1,393,701	440,444
Expenditures				
Current:				
Grant-related expenditures:				
General government	-	-	233,661	-
Public works	-	-	150,930	-
Public safety	-	27,810	64,500	-
Recreation	-	-	115,223	-
Community and economic development	-	-	829,387	-
Drug enforcement	157,285	-	-	-
Library expenses	-	-	-	-
Other	-	-	-	262,544
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	157,285	27,810	1,393,701	262,544
Excess of Revenues Over (Under) Expenditures	56,870	-	-	177,900
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	56,870	-	-	177,900
Fund Balances - Beginning of year	36,164	-	-	296,644
Fund Balances - End of year	\$ 93,034	\$ -	\$ -	\$ 474,544

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Capital Projects	Fire Station Bonds	
\$ -	\$ -	\$ 1,474,731	\$ -	\$ -	\$ 1,474,731
-	-	-	-	-	1,393,701
-	-	93,629	-	-	93,629
-	36,213	-	-	-	476,657
-	-	158,812	1,839	-	163,244
-	-	-	-	-	211,562
-	-	290,896	-	-	318,706
-	36,213	2,018,068	1,839	-	4,132,230
-	-	-	-	-	233,661
-	-	-	-	-	150,930
-	-	-	-	-	92,310
-	-	-	-	-	115,223
-	-	-	-	-	829,387
-	-	-	-	-	157,285
-	-	1,668,271	-	-	1,668,271
-	26,108	-	-	-	288,652
-	-	-	14,640	-	14,640
-	-	-	-	220,638	220,638
-	26,108	1,668,271	14,640	220,638	3,770,997
-	10,105	349,797	(12,801)	(220,638)	361,233
-	-	2,958	-	220,638	223,596
-	-	-	(2,958)	-	(2,958)
-	-	2,958	(2,958)	220,638	220,638
-	10,105	352,755	(15,759)	-	581,871
-	16	2,481,243	73,896	-	2,887,963
<u>\$ -</u>	<u>\$ 10,121</u>	<u>\$ 2,833,998</u>	<u>\$ 58,137</u>	<u>\$ -</u>	<u>\$ 3,469,834</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2008

	General Government Employees' Retirement System	Police and Fire Retirement System	Total
Assets			
Cash and cash equivalents	\$ 1,498,677	\$ 5,485,236	\$ 6,983,913
Marketable securities:			
U.S. governmental securities	757,247	4,330,729	5,087,976
Municipal	-	250,187	250,187
Common stock	18,048,680	65,284,814	83,333,494
Limited partnerships	175,720	7,168,104	7,343,824
Real estate investment trusts	-	1,316,196	1,316,196
Corporate bonds	4,308,206	11,884,282	16,192,488
Mutual funds	14,885,937	50,283,298	65,169,235
Cash held as collateral for securities lending	-	13,315,365	13,315,365
Other receivables	74,360	278,862	353,222
Total assets	39,748,827	159,597,073	199,345,900
Liabilities			
Accounts payable	-	130,452	130,452
Due to other governmental units	-	1,783,672	1,783,672
Collateral for securities lending	-	13,315,365	13,315,365
Total liabilities	-	15,229,489	15,229,489
Net Assets - Held in trust for employees' retirement systems	\$ 39,748,827	\$ 144,367,584	\$ 184,116,411

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2008

	General Employees' Retirement System	Police and Fire Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 1,156,539	\$ 8,509,771	\$ 9,666,310
Net increase in fair value of investments	(2,145,589)	(13,262,733)	(15,408,322)
Less investment expenses	-	(465,026)	(465,026)
Net investment income	(989,050)	(5,217,988)	(6,207,038)
Contributions:			
Employer	831,528	2,342,943	3,174,471
Employee	-	523,809	523,809
Total contributions	831,528	2,866,752	3,698,280
Net securities lending income	-	80,403	80,403
Total additions	(157,522)	(2,270,833)	(2,428,355)
Deductions			
Benefit payments	1,718,408	6,059,978	7,778,386
Fringe benefits	-	1,783,672	1,783,672
Administrative expenses	-	69,316	69,316
Total deductions	1,718,408	7,912,966	9,631,374
Net Decrease	(1,875,930)	(10,183,799)	(12,059,729)
Net Assets Held in Trust for Pension Benefits			
Beginning of year	41,624,757	154,551,383	196,176,140
End of year	<u>\$ 39,748,827</u>	<u>\$ 144,367,584</u>	<u>\$ 184,116,411</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Balance Sheet Fiduciary Agency Funds June 30, 2008

	Agency Fund	District Court Fund	Total
Assets - Cash and cash equivalents	<u>\$ 238,877</u>	<u>\$ 628,347</u>	<u>\$ 867,224</u>
Liabilities			
Accrued and other liabilities	\$ 120,625	\$ 142,012	\$ 262,637
Due to other governmental units	<u>118,252</u>	<u>486,335</u>	<u>604,587</u>
Total liabilities	<u>\$ 238,877</u>	<u>\$ 628,347</u>	<u>\$ 867,224</u>

City of Dearborn Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2008**

City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Dearborn Heights, Michigan's basic financial statements, and have issued our report thereon dated October 30, 2008. Those basic financial statements are the responsibility of the management of the City of Dearborn Heights, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dearborn Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 30, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Dearborn Heights, Michigan's basic financial statements, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Dearborn Heights, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dearborn Heights, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Mayor and City Council
City of Dearborn Heights, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dearborn Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 30, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Mayor and City Council
City of Dearborn Heights, Michigan

Compliance

We have audited the compliance of the City of Dearborn Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The major federal program of the City of Dearborn Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Dearborn Heights, Michigan's management. Our responsibility is to express an opinion on the City of Dearborn Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dearborn Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dearborn Heights, Michigan's compliance with those requirements.

In our opinion, the City of Dearborn Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

To the Mayor and City Council
City of Dearborn Heights, Michigan

Internal Control Over Compliance

The management of the City of Dearborn Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 30, 2008

City of Dearborn Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development - Community Development Block Grant Program:		
2004 program year	14.218	\$ 6,711
2005 program year	14.218	175,978
2006 program year	14.218	426,135
2007 program year	14.218	<u>784,877</u>
Total U.S. Department of Housing and Urban Development		1,393,701
U.S. Department of Justice - Juvenile Accountability Block Grant	16.523	<u>27,810</u>
Total federal awards		<u><u>\$ 1,421,511</u></u>

City of Dearborn Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dearborn Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City of Dearborn Heights, Michigan had the following loan balances outstanding at June 30, 2008. These loan balances are not included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant Rehabilitation Loans	14.218	\$1,947,642

City of Dearborn Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program	CFDA Number	Description	Amount Provided to Subrecipients
Community Development Block Grant	14.218	Arab Community Center for Economic and Social Services	\$ 1,500
Community Development Block Grant	14.218	First Step	1,500
Community Development Block Grant	14.218	Lutheran Social Services	1,500
Community Development Block Grant	14.218	Personal Assisted Living Services	1,500
Community Development Block Grant	14.218	Salvation Army	1,500
Community Development Block Grant	14.218	The Arc	1,500
Community Development Block Grant	14.218	Downriver Community Conference	1,365
Community Development Block Grant	14.218	Vista Maria	1,500
Community Development Block Grant	14.218	Wayne Metro Community Action	1,500
Total subrecipient awards			<u>\$ 13,365</u>

City of Dearborn Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Dearborn Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

City of Dearborn Heights, Michigan

Report to the Mayor and City Council

June 30, 2008



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To the Mayor and City Council Members
City of Dearborn Heights, Michigan

We have recently completed our audit of the basic financial statements of the City of Dearborn Heights (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, other recommendations, and informational comments which impact the City:

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Results of the Audit	1-5
Summary of Unrecorded Possible Adjustments	6
Other Recommendations	7
Informational Comments	8-10

We are grateful for the opportunity to be of service to the City of Dearborn Heights, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 30, 2008



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Results of the Audit

October 30, 2008

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

We have audited the financial statements of the City of Dearborn Heights (the "City") for the year ended June 30, 2008 and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 30, 2008 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Auditor's Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. The financial statements remain the representations of management.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws, Regulations, Grant Agreements, and Contract Provisions

In the process of a financial statement audit, we gain an understanding of internal control of the organization as well as the laws and regulations having a direct and material effect on the organization for the purpose of assisting in determining the nature, timing, and extent of audit testing. Tests of controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting our opinion on the financial statements. However, the limited purpose and scope of these tests are not sufficient to provide a basis for an opinion on the adequacy of internal control or on compliance with laws, regulations, grant agreements, and contract provisions.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditor's reports who require additional information on internal controls and on compliance with laws, regulations, grant agreements, and contract provisions. To meet certain audit report users' needs, laws, regulations, grants, and contracts often prescribe testing and reporting on internal controls and compliance to supplement the coverage of these areas in a financial statement audit. In accordance with OMB Circular A-133 covering federal awards, supplemental testing of and reporting on internal controls and compliance were performed.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant estimates noted in the financial statements include the workers' compensation and the general insurance liabilities.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule, "summary of unrecorded possible adjustments," summarizes the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, there were misstatements detected as a result of audit procedures and corrected by management, none of which were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter obtained as of the date of this letter.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

This information is intended solely for the use of the mayor, City Council members, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe

A handwritten signature in black ink that reads "Martin J. Olejnik". The signature is written in a cursive, flowing style.

Martin J. Olejnik

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

Summary of Unrecorded Possible Adjustments

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1	Governmental activities and Corporate Fund - To decrease capital assets for ambulance that was not received as of June 30, 2008	\$ (113,156)	\$ -	\$ -	\$ -	\$ 113,156
A2	Governmental activities - To record accrued interest income	26,161	-	-	26,161	-
A3	Local Streets Fund - To record accrued interest income	9,047	-	-	9,047	-
A4	Various other funds - To record accrued interest income	17,114	-	-	17,114	-
A5	Business-type activities - To adjust accrued sick and vacation to client detail schedule	-	131,180	-	-	131,180
A6	Component units - To record accrued interest income	27,186	-	-	27,186	-
Estimate Adjustments:						
B1	Governmental activities - To record adjustment to special assessment A/R, revenue, and deferred revenue	(66,000)	(32,000)	-	(34,000)	-
B2	Corporate Fund - To record increase in special assessment A/R and deferred revenue	32,000	32,000	-	-	-
B3	Business-type activities - To accrue for City of Dearborn sewage charges from December 2007 through June 2008	-	37,000	-	-	37,000
Implied Adjustments:						
C1	None	-	-	-	-	-
	Combined effect	\$ (67,648)	\$ 168,180	\$ -	\$ 45,508	\$ 281,336

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

Other Recommendations

As a result of the various audit procedures performed during this year's audit, we have the following recommendations that we would like to communicate with you:

- We suggest that the City review its internal control procedures and policies that address the following items:
 - During our review of manual journal entries, we noted that there appears to be no formal review and/or approval process.
 - During our review of outstanding checks, we noted old outstanding checks (outstanding for more than one year). We suggest that the outstanding checks are reviewed regularly and appropriately addressed.
- During our review of the actuarial reports for the general government employees' retirement system and the police and fire retirement system, we noted that the actuary has various recommendations for the report. As such, we wanted to highlight these recommendations for your consideration.
- As of June 30, 2008, current and prior period property tax levies for sanitation and CSO debt service have generated approximately \$2.1M and \$5.1M cumulative over levies, respectively. This represents approximately one-half and two years of required funds, respectively. We encourage the City to take these balances into consideration when setting future levies for the related activities.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

Informational

Property Tax Revenue

Recent conditions in the real estate market are expected to have a negative impact on taxable values. The good news is that a given drop in market values will not result in an equivalent drop in taxable values. On the other hand, this dampened effect is diminished each year we continue with market declines. In other words, if we were to experience a theoretical 10 percent market decline three years in a row, the effect on taxable value (which would be different for each community) might be a 1 percent drop the first year, 4 percent the next year, and 7 percent in the third year. Therefore, it will be important to closely monitor taxable values in the upcoming years.

Potential Legislation Impacting Property Taxes

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Lastly, more personal property tax relief is also part of the new Michigan business tax. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills. Refer to State Tax Commission bulletin 2007-11 for more detailed information.

State-shared Revenue

State-shared revenue continues to be a significant revenue source for the City. The governor’s 2009 budget is anticipating another decline in total sales tax collections, which will result in a reduced constitutional state-shared revenue. While the governor’s original budget offset this with an increase in the statutory portion, the May revenue-estimating conference casts a shadow over their ability to do so. The City should continue to budget state-shared revenue very conservatively, until we see stronger evidence of a state economic recovery.

Retiree Healthcare Benefits

As we have mentioned in prior correspondence, governmental accounting pronouncements will require the City to begin to record its liability for retiree healthcare benefits in the City’s fiscal year ending June 30, 2009.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

Currently, the City has funds designated for these benefits and a draft trust document is being reviewed by the City.

Report on Investments to the Council

A new law was passed in December 2007 for reporting on investments to the City Council. The management is now required to report on investments at least quarterly. While the law prescribes no minimum information requirements, we feel that the report should include a list of investments with the financial institution each issued through the amount and perhaps the stated interest rate.

To the Mayor and Members of the City Council
City of Dearborn Heights, Michigan

FACT Act - Potential Impact on Municipal Utility Systems

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the red flag rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the red flag rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day by day but paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

We encourage you to follow up with legal counsel if you believe this act may apply to your governmental unit.

Closing

We would like to thank the City Council and the mayor for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.